# Claren Energy Corp.

Consolidated Financial Statements
July 31, 2018 and 2017
*(Expressed in Canadian Dollars)*

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Claren Energy Corp.

We have audited the accompanying consolidated financial statements of Claren Energy Corp., which comprise the consolidated statement of financial position as at July 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Claren Energy Corp. as at July 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that cast significant doubt about the Company's ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
November 23, 2018

**Claren Energy Corp.**
Consolidated Statements of Financial Position
As at July 31, 2018 and 2017
*(Expressed in Canadian Dollars)*

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | | 95,751 | 410,803 |
| Receivables | 6 | 5,989 | 4,381 |
| Prepaid expenses | | 12,593 | 15,350 |
| | | 114,333 | 430,534 |
| Equipment | | 3,409 | 5,746 |
| Exploration and evaluation assets (“E&E assets”) | 7 | 1,245,056 | 1,741,666 |
| | | 1,362,798 | 2,177,946 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 8, 12 | 820,329 | 508,124 |
| Loan payable | 9 | 50,000 | - |
| Decommissioning obligation | 7(d) | 33,859 | 65,663 |
| | | 904,188 | 573,787 |
| **Equity Attributable to Shareholders** | | | |
| Share capital | 10 | 29,658,454 | 29,658,454 |
| Reserves | | 8,001,088 | 8,001,088 |
| Accumulated other comprehensive loss (“AOCL”) | | (239,390) | (220,272) |
| Deficit | | (36,961,542) | (35,835,111) |
| | | 458,610 | 1,604,159 |
| | | 1,362,798 | 2,177,946 |

Nature of operations – Note 1
Going concern – Note 2
Subsequent events – Note 16

Approved by the Board of Directors on November 23, 2018

“Henry Aldorf” Director

“Nico Civelli” Director



The accompanying notes are an integral part of these consolidated financial statements

**Claren Energy Corp.**
Consolidated Statements of Loss and Comprehensive Loss
For the years ended July 31, 2018 and 2017
*(Expressed in Canadian Dollars)*

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| Audit and accounting | 12 | 121,448 | 103,929 |
| Filing and transfer agent | | 46,474 | 73,694 |
| Depreciation | | 2,337 | 3,338 |
| Interest expense | 9 | 548 | - |
| Foreign exchange loss | | 25,044 | 23,293 |
| Legal | 12 | 58,662 | 155,980 |
| Management and consulting | 12 | 190,830 | 312,856 |
| Office and miscellaneous | 12 | 23,442 | 15,613 |
| Overhead charged to exploration | | - | (22,882) |
| Shareholder communications | | 16,602 | 37,158 |
| Travel and related | | 18,990 | 64,890 |
| Loss before other items | | (504,377) | (767,869) |
| (Allowance) reversal for doubtful accounts | 6,7(a) | 100,132 | (292,231) |
| Write-down of E&E assets | 7(c) | (722,186) | (3,434,094) |
| Loss for the year | | (1,126,431) | (4,494,194) |
| Other comprehensive (loss) income | | | |
| Exchange loss on translation of foreign accounts | 7(e) | (19,118) | (32,628) |
| Comprehensive loss for the year | | (1,145,549) | (4,526,822) |
| Loss per share – basic and diluted | 10(e) | (0.02) | (0.10) |
| Weighted average number of shares outstanding – basic and diluted | | 59,442,476 | 46,621,280 |



The accompanying notes are an integral part of these consolidated financial statements

**Claren Energy Corp.**
Consolidated Statements of Cash Flows
For the years ended July 31, 2018 and 2017
*(Expressed in Canadian Dollars)*

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash Provided From (Used In) | | |
| Operating Activities | | |
| Loss for the year | (1,126,431) | (4,494,194) |
| Items not affecting cash: | | |
| Depreciation | 2,337 | 3,338 |
| Allowance for doubtful accounts | (100,132) | 292,231 |
| Write-down E&E assets | 722,186 | 3,434,094 |
| Unrealized foreign exchange loss | 23,319 | - |
| Funds used in operations before working capital items | (478,721) | (764,531) |
| Net change in working capital items | | |
| Receivables | (1,608) | 21,775 |
| Prepaid expenses | 2,757 | 1,355 |
| Accounts payable and accrued liabilities | 215,926 | 53,611 |
| | (261,646) | (687,790) |
| Investing Activities | | |
| Exploration and evaluation expenditures | (101,528) | (2,851,975) |
| Cash acquired on acquisition of exploration and evaluation assets | - | 12,981 |
| | (101,528) | (2,838,994) |
| Financing Activities | | |
| Proceeds from securities issued, net of issue costs | - | 2,114,476 |
| Loan received | 50,000 | - |
| | 50,000 | 2,114,476 |
| Foreign exchange (loss) gain on cash held in foreign currencies | (1,878) | 906 |
| Decrease in cash | (315,052) | (1,411,402) |
| Cash – beginning of the year | 410,803 | 1,822,205 |
| Cash – end of the year | 95,751 | 410,803 |

Supplemental cash flow information - Note 14



The accompanying notes are an integral part of these consolidated financial statements

**Claren Energy Corp.**
Consolidated Statements of Changes in Equity
For the years ended July 31, 2018 and 2017
*(Expressed in Canadian Dollars)*

| | Common Shares # | Share Capital $ | Reserves $ | AOCL $ | Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| Balance – July 31, 2016 | 21,883,476 | 26,686,351 | 7,258,715 | (187,644) | (31,340,917) | 2,416,505 |
| Issued during the period: | | | | | | |
| Pursuant to acquisition of E&E assets (Note 7) | 10,000,000 | 1,600,000 | - | - | - | 1,600,000 |
| Pursuant to private placement of units (Note 10) | 27,559,000 | 1,508,396 | 696,324 | - | - | 2,204,720 |
| Less: cash issue costs (Note 10) | - | (90,244) | - | - | - | (90,244) |
| Less: finders' warrants (Note 10) | - | (46,049) | 46,049 | - | - | - |
| Comprehensive loss for the year | - | - | - | (32,628) | (4,494,194) | (4,526,822) |
| Balance – July 31, 2017 | 59,442,476 | 29,658,454 | 8,001,088 | (220,272) | (35,835,111) | 1,604,159 |
| Comprehensive loss for the year | - | - | - | (19,118) | (1,126,431) | (1,145,549) |
| Balance – July 31, 2018 | 59,442,476 | 29,658,454 | 8,001,088 | (239,390) | (36,961,542) | 458,610 |

## 1. Nature of operations

Claren Energy Corp. (the “Company” or "Claren") was incorporated under the Canada Business Corporations Act and, effective October 31, 2016, continued under the laws of British Columbia. The Company’s principal business is the acquisition and exploration of petroleum and natural gas properties. Subsequent to July 31, 2018, the Company spun out its Australian petroleum and natural gas exploration business (Note 16). The Company’s shares trade on the TSX Venture Exchange (the "TSX-V") under the symbol “CEN” and the OTCQB marketplace under the symbol “CNENF”. The Company's corporate head office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada.

## 2. Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months. Carrying values as shown in these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

At July 31, 2018, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business. At July 31, 2018, the Company had a working capital deficiency of $789,855. The Company will need additional financing to continue to develop its oil and gas exploration and evaluation assets and to continue its operations. These factors give rise to material uncertainties which may cast significant doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Management believes that the use of the going concern assumption is appropriate for these financial statements. Management believes that the Company will be able to obtain additional financing, through the issuance of either shares or debt to fund continuing operations and exploration and development activities. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

## 3. Basis of presentation

These consolidated financial statements, including comparatives have been prepared using International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

Unless otherwise stated, all dollar amounts are in Canadian dollars. The notation “A$” represents Australian dollars and “US$” represents US dollars.

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

### Basis of consolidation

(i) Subsidiaries

The consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Details of subsidiaries are as follows:

*(Expressed in Canadian Dollars)*

| | | Percentage owned | |
|---|---|---|---|
| | **Incorporated in** | **July 31, 2018** | **July 31, 2017** |
| Terra Nova Resources Inc. | Canada | 100% | 100% |
| Terra Nova Holdings (Australia) Pty. Ltd. | Australia | 100% | 100% |
| Terra Nova Energy (Australia) Pty. Ltd. | Australia | 100% | 100% |
| Claren Operations Ltd. | Canada | 100% | 100% |

(ii) Jointly controlled operations

The consolidated financial statements include the Company's share of assets, liabilities and expenses of jointly controlled operations.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

**Cash and cash equivalents**

Cash and equivalents include cash on hand, deposits held with banks and short-term highly liquid investments with original maturities of less than 90 days.

**Property, plant and equipment ("PP&E") and exploration and evaluation ("E&E") assets**

(i) Recognition and measurement

*E&E expenditures*

Pre-license costs are recognized in the statement of loss as incurred. E&E costs, including the costs of acquiring licenses and directly attributable general and administrative costs, are capitalized initially as E&E assets. The costs are accumulated in cost centers by well, field or exploration area pending the determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a resource is generally considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, E&E expenditures attributable to those reserves are first tested for impairment and then reclassified from E&E assets to PP&E.

*Development and production costs*

Items of PP&E, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of PP&E, including oil and natural gas assets, have different useful lives, they are accounted for as separate items (components).

Gains and losses on disposal of an item of PP&E, including oil and natural gas assets, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in profit or loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs will be estimated taking into account the level of development required to produce the reserves. These estimates will be reviewed by independent reserve engineers at least annually.

Other corporate assets are recorded at cost on acquisition and depreciated on a declining-balance basis at rates of 20 percent to 50 percent per year.

**Impairment**

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company’s non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

E&E assets are assessed for impairment when they are reclassified to PP&E and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped together into cash-generating units (“CGU”). The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves. Any goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of PP&E and exploration and evaluation assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

**Decommissioning and restoration provisions**

An obligation to incur restoration, rehabilitation and environmental costs arises when an environmental disturbance is caused by the exploration or development of a property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, along with a corresponding liability as soon as the legal or constructive obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the asset operates.

Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit of production method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates or changes in applicable discount rates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

**Financial assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

**Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss).

**De-recognition of financial assets and liabilities**

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

**Earnings per share**

Basic earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive.

**Foreign currencies**

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Company is Canadian dollars. The functional currency of Claren Energy Corp. and Terra Nova Resources Inc. is the Canadian dollar, the functional currency of Claren Operations Ltd. is the Euro and the functional currency of Terra Nova Holdings (Australia) Pty. Ltd. and Terra Nova Energy (Australia) Pty Ltd. is the Australian dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are charged to the statement of (loss) income.

The statement of financial position of each subsidiary is translated into Canadian dollars using the exchange rate at the balance sheet date and the income statement is translated into Canadian dollars using the average exchange rate for the period. All gains and losses on translation of a subsidiary from the functional currency to the presentation currency are charged to other comprehensive (loss) income.

**Income tax**

Income tax on the income or loss for the periods presented comprises current and deferred tax. Income tax is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

For equity offerings of units consisting of a common share and another equity instrument, the Company uses the relative fair value method to allocate the value of the unit to the value of the components.

**Share-based payments**

The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to reserves under the graded attribution method. The fair value, as adjusted for the expected forfeiture rate, is recognized over the vesting period of the options. Stock options granted to non-employees are measured at the estimated value of services received. Warrants issued to brokers are measured at the estimated value of services received on the grant date and are recognized as a deduction from equity and credited to reserves.

Any consideration received on the exercise of stock options together with the related portion of reserves is credited to share capital. The fair value of stock options and warrants is estimated using the Black-Scholes Option Pricing Model.

## 4. Accounting standards issued but not yet effective

The following new standards have been issued but not yet applied:

i) New standard IFRS 9, Financial Instruments, is a partial replacement of IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of IFRS 9 to have a material effect on the financial statements.

ii) IFRS 16, Leases, replaces IAS 17, Leases, and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. The Company has not yet assessed the future impact of this new standard on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable and/or are not expected to have a significant impact on the Company's financial statements.

## 5. Critical accounting estimates and judgements

The preparation of financial statements requires management to use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates.

Significant judgements:

(i) The Company's assets are aggregated into cash generating units for the purpose of calculating impairment. Cash generating units ("CGU") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgement in regards to geographical proximity, geology, production profile, shared infrastructure and similar exposure to market risk and materiality. Based on this assessment, the Company's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

(ii) The application of the Company's accounting policy for E&E assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves have been found.

(iii) The functional currency of each entity is determined by management based on the currency that most impacts the business of the relevant entity. The factors considered by management include the volume of purchases in a particular currency and the currency that cash is held in.

(iv) The assumption that the Company is a going concern and will continue in operation for the foreseeable future and at least one year. The factors considered by management are disclosed in Note 2.

*(Expressed in Canadian Dollars)*

(v) Management assesses E&E assets for impairment when facts and circumstances suggest that the carrying amount of any such assets may exceed their recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Company shall measure, present and disclose any resulting impairment.

Significant estimates:

(i) The Company must estimate the cost of the abandonment and restoration of drill sites on PEL 112 and PEL 444 in Australia and other drill sites in Romania.

## 6. Receivables

| | July 31, 2018 $ | July 31, 2017 $ |
|---|---|---|
| Recoverable taxes | 5,989 | 4,381 |
| Receivable from Zeta (Note 7) | - | 292,231 |
| Less: allowance for doubtful accounts (Note 7) | - | (292,231) |
| Total receivables | 5,989 | 4,381 |

## 7. Exploration and evaluation assets

Exploration and evaluation assets consist of the following:

| | Australia $ | Romania $ | Total $ |
|---|---|---|---|
| Balance, July 31, 2016 | 800,000 | - | 800,000 |
| Acquisition costs | 1,661,252 | 281,965 | 1,943,217 |
| Exploration costs | | | |
| Drilling | - | 2,300,772 | 2,300,772 |
| Geotechnical analysis | - | 115,021 | 115,021 |
| Share of JV expenditures | 42,689 | - | 42,689 |
| | 42,689 | 2,415,793 | 2,458,482 |
| Write-down | (1,229,154) | (2,204,940) | (3,434,094) |
| Effects of translation of foreign accounts | (45,632) | 19,693 | (25,939) |
| Balance, July 31, 2017 | 1,229,155 | 512,511 | 1,741,666 |
| Exploration costs | | | |
| Geotechnical analysis and administration | - | 89,673 | 89,673 |
| Share of JV expenditures | 52,508 | 100,132 | 152,640 |
| | 52,508 | 189,805 | 242,313 |
| Write-down | - | (722,186) | (722,186) |
| Effects of translation of foreign accounts | (36,608) | 19,871 | (16,737) |
| Balance, July 31, 2018 | 1,245,055 | 1 | 1,245,056 |

*a) Romania*

On September 1, 2016, the Company entered into a Farmout Agreement (the "Bobocu Agreement") with Zeta Petroleum (Romania) S.R.L. ("Zeta") to acquire up to an eighty percent (80%) participating interest in the Bobocu License, onshore Romania.

Claren earned an initial forty percent (40%) participating interest in the Bobocu License by drilling one commitment side-track entering of an existing well on the License.

In accordance with the agreement, Claren was obligated to pay for the first US$850,000 towards the drilling of a side-track well with Claren paying for 40% of costs in excess of that amount and Zeta paying for the remaining 60%. As the total well costs were €2,713,026 ($3,845,172) and Claren paid Zeta €1,761,671 ($2,496,816) to drill and test the well, Claren had a receivable of €198,540 ($292,231) due from Zeta as at July 31, 2017. During the year ended July 31, 2017, the Company wrote-off all costs related to drilling of the well.

During the year ended July 31, 2018, Zeta incurred exploration expenditure of which the Company's share was $100,132. The Company recorded a reversal of allowance for doubtful accounts of $100,132. The remaining $192,099 of allowance for doubtful accounts was written-off.

Claren had the option to acquire an additional forty percent (40%) participating interest in the Bobocu License by drilling one additional exploration well to a total depth of 2,800 meters and making additional cash payments totaling US$1,040,000, of which 50% of the cash payment were to be paid on certain milestone events and 50% of the cash payments were to be paid out of Claren's entitlement to future production. The option to acquire an additional 40% participating interest expired on August 31, 2017.

*b) Australia*

The Company has an interest in petroleum and natural gas rights on certain on-shore Australian Petroleum Exploration Licenses ("PEL"), known as PEL's 112 and 444. As at July 31, 2018 and 2017, the Company owned a a 51.4997% working interest in each of PELs 112 and 444 and Holloman Energy Corporation ("Holloman") has the remaining 48.5003%. The joint venture co-venturers are subject to the 2006 Joint Operating Agreement (the "JOA") which governs the PEL 112 and PEL 444 joint ventures (the "JVs"). Claren serves as operator of the JVs.

The minimum one year work commitment under PEL 444 is to carry out geological and geophysical studies and the license term expires on January 11, 2022. The minimum one year work commitment under PEL 112 is to carry out geological and geophysical studies and the license term expires on January 9, 2021. In order to renew each license, a well must be drilled prior to the end of the license term.

*Acquisition of PEL 112 and PEL 444*

On September 26, 2016, the Company entered into an Agreement with Perseville Investing Inc. to acquire an additional 30.8330% working interest in PELs 112 and 444, and a 1.47% gross overriding royalty interest on the PELs (Note 12). On October 28, 2016, the transaction was approved by the shareholders at the annual general and special meeting.

The transaction was completed on November 10, 2016 when Claren issued to Perseville 10,000,000 common shares of the Company with a fair value of $1,600,000, based on the closing share price on the date of issuance of $0.16 per share. For purposes of the transaction, the consideration paid was allocated to net assets acquired as follows:

*(Expressed in Canadian Dollars)*

| | $ |
|---|---|
| Fair value of 10,000,000 common shares issued at the fair value of $0.16 per share | 1,600,000 |
| Amounts due to the JVs from Perseville | 32,866 |
| Aggregate fair value of consideration paid | 1,632,866 |
| | |
| Cash | 12,981 |
| Receivables | 5,146 |
| Exploration and evaluation assets | 1,661,252 |
| Accounts payable and accrued liabilities | (28,013) |
| Asset retirement obligations | (18,500) |
| | 1,632,866 |

Perseville is a related party of Claren as it is a private company controlled by a shareholder of Claren, who is also a family member of a Director and Officer of the Company.

*c) Impairment*

2018
As at July 31, 2018, the Company determined that there were indicators of impairment on the Bobocu License and accordingly, the Company wrote-down the property to $1 and charged $722,186 to the statement of loss.

2017
As the Bobocu 310 side-track well found gas saturations below the Company's expectations, the Company wrote-off all costs related to drilling of the well. The Bobocu License was written-down to its acquisition costs and other exploration costs and $2,204,940 was charged to the statement of loss.

The Company determined that there were indicators of impairment on PEL 444. The Company wrote-down PEL 444 to $nil and charged $1,229,154 to the statement of loss. The Company continues to have a 51.4997% working interest in each of PELs 112 and 444.

*d) Decommissioning Obligation*

As at July 31, 2018, the Company had a current obligation of A$35,000 ($33,859) (2017 – A$35,000 ($34,874)) for the abandonment and restoration of the dry hole at PEL 112. The Company is obligated to pay 100% of the decommissioning costs on PEL 112.

As at July 31, 2017, the Company had a A$60,000 ($61,266) current obligation for PEL 444. During the year ended July 31, 2018, the Company incurred A$31,014 ($30,003) to settle the obligation. The Company was obligated to pay 25.8333% of the decommissioning costs on PEL 444.

*e) Exchange Gain (Loss) on Translation of E&E Assets*

As all of the Company's E&E assets are held in subsidiaries whose functional currencies are the Australian dollar or the Euro, in accordance with IFRS relating to the translation of foreign operations (see Note 3), the E&E assets were translated to Canadian dollars at the balance sheet date. The impact of such foreign translation has been included in other comprehensive loss.

*(Expressed in Canadian Dollars)*

## 8. Accounts payable and accrued liabilities

| | July 31, 2018 $ | July 31, 2017 $ |
|---|---|---|
| Trade payables | 75,892 | 30,534 |
| Interest payable on loan (Note 9) | 548 | - |
| Amounts due to related parties (Note 12) | 743,889 | 477,590 |
| Total accounts payable and accrued liabilities | 820,329 | 508,124 |

## 9. Loan payable

On June 21, 2018, the Company entered into a loan agreement with a private company controlled by a shareholder of Claren, who is also a family member of a Director and Officer of the Company (Note 12).

Pursuant to the loan agreement, the Company received an unsecured loan of $50,000 bearing interest at 10% per annum and maturing on June 21, 2019. During the year ended July 31, 2018, the Company recorded interest expense of $548 (2017 - $nil).

## 10. Share capital

### a) Authorized:

An unlimited number of common shares without par value.

### b) Financings:

During the year ended July 31, 2018, the Company did not complete any equity financings.

During the year ended July 31, 2017, the Company completed the following financing:

i) On December 6, 2016, the Company closed the first tranche of a non-brokered private placement by issuing 9,950,000 units at a price of $0.08 per unit for gross proceeds of $796,000. Each unit is comprised of one common share and one common share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share at $0.15 per share up to December 6, 2018. The Company allocated $253,106 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes Option Pricing Model were as follows: share price of $0.115; exercise price of $0.15; expected volatility of 101%; expected life of 2 year; a risk-free interest rate of 1.15%; and an expected dividend rate of nil.

On December 16, 2016, the Company closed the second tranche of the non-brokered private placement by issuing 15,096,500 units at a price of $0.08 per unit for gross proceeds of $1,207,720. Each unit is comprised of one common share and one common share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share at $0.15 per share up to December 16, 2018. The Company allocated $370,699 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes Option Pricing Model were as follows: share price of $0.105; exercise price of $0.15; expected volatility of 101%; expected life of 2 year; a risk-free interest rate of 1.15%; and an expected dividend rate of nil.

On December 22, 2016, the Company closed the third and final tranche of the non-brokered private placement by issuing 2,512,500 units at a price of $0.08 per unit for gross proceeds of $201,000. Each unit is comprised of one common share and one common share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share at $0.15 per share up to December 22, 2018. The Company allocated $72,519 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes Option Pricing Model were as follows: share price of $0.175; exercise price of $0.15; expected volatility of 100%; expected life of 2 year; a risk-free interest rate of 1.15%; and an expected dividend rate of nil.

*(Expressed in Canadian Dollars)*

The Company incurred finder's fees of $79,220 and other cash issuance costs of $11,024 in connection with the private placements. In addition, the Company issued 990,255 finders' warrants with each whole warrant entitling the holder thereof to purchase one additional common share at $0.15 per share up to December 16, 2018. The fair value of $46,049 for the finders' warrants was estimated using the Black-Scholes Option Pricing Model and was charged to share issue costs and credited to reserves. The assumptions used in the Black-Scholes Option Pricing Model were as follows: share price of $0.105; exercise price of $0.15; expected volatility of 101%; expected life of 2 year; a risk-free interest rate of 1.15%; and an expected dividend rate of nil.

**c) Options:**

The Company has established a stock option plan in accordance with the policies of the TSX-V which it is authorized to grant share purchase options up to 10% of its outstanding shares. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Market Price (as that term is defined in the policies of the TSX-V). The options are for a maximum term of ten years and vest as determined by the board of directors. All options granted have vested on the grant date.

A summary of the status of the Company's stock option plan as at July 31, 2018 and 2017 and the changes during the years then ended is presented below:

| | Number of options | Weighted average exercise price $ |
|---|---|---|
| Balance outstanding – July 31, 2016 | 1,718,750 | 0.76 |
| Expired | (50,000) | 0.72 |
| Balance outstanding – July 31, 2017 | 1,668,750 | 0.77 |
| Expired | (225,000) | 0.72 |
| Forfeited | (325,000) | 0.79 |
| Balance outstanding and exercisable – July 31, 2018 | 1,118,750 | 0.77 |

At July 31, 2018, stock options outstanding that entitled the holder thereof to acquire one share for each option held are as follows:

| Expiry Date | Exercise Price $ | Number of Options |
|---|---|---|
| October 31, 2019 | 0.72 | 818,750 |
| October 2, 2020 | 0.72 | 175,000 |
| May 16, 2022 | 1.20 | 125,000 |
| | | 1,118,750 |

*(Expressed in Canadian Dollars)*

**d) Warrants:**

A summary of warrants outstanding as of July 31, 2018 and 2017 and the changes during the years then ended is presented below:

| | Number of warrants | Weighted average exercise price $ |
|---|---|---|
| Balance outstanding – July 31, 2016 | - | - |
| Issued | 28,549,255 | 0.15 |
| Balance outstanding – July 31, 2018 and 2017 | 28,549,255 | 0.15 |

At July 31, 2018, warrants outstanding that entitled the holder thereof to acquire one share for each warrant held are as follows:

| Expiry Date | Exercise Price $ | Number of Warrants |
|---|---|---|
| December 6, 2018 | 0.15 | 9,950,000 |
| December 16, 2018 | 0.15 | 16,086,755 |
| December 22, 2018 | 0.15 | 2,512,500 |
| | | 28,549,255 |

**e) Basic and diluted loss per share:**

During the year ended July 31, 2018, potentially dilutive common shares totaling 29,668,005 (2017 – 30,218,005) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

**f) Share consolidation:**

Effective November 14, 2016, the Company consolidated its common shares on the basis of one new common share for every four old common shares issued and outstanding at that time. All references to share and per share amounts in these financial statements have been retroactively restated to reflect the share consolidation.

**g) Reserves**

The share-based payment reserve records items recognized as share-based compensation expense until such time the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

The warrant reserve records the proceeds allocated to warrants on the issuance of units in private placements until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital.

*(Expressed in Canadian Dollars)*

## 11. Income Taxes

A reconciliation between the Company's income tax provision computed at statutory rates to the reported income tax expense (recovery) for the years ended July 31, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Statutory tax rate | 27.00% | 26.00% |
| | | $ |
| Loss for the year before income taxes | (1,126,431) | (4,494,194) |
| Expected income tax recovery | (301,000) | (1,168,000) |
| Tax rate adjustments and foreign exchange differences | (150,000) | (328,000) |
| Non-deductible items and other | (145,000) | (86,000) |
| Unrecognized benefit of tax attributes | 596,000 | 1,582,000 |
| Income tax expense (recovery) | - | - |

The significant components of the recognized deferred income tax assets (liabilities) as at July 31, 2018 and 2017 are as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Resource property costs | - | (709,000) |
| Tax loss carryforwards | - | 709,000 |
| Total | - | - |

The significant components of deductible temporary differences for which no deferred income tax assets have been recognized as at July 31, 2018 and 2017 are as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Tax loss carryforwards | 16,181,000 | 15,676,000 |
| Share issue and financing costs | 58,000 | 78,000 |
| Resource property costs tax basis in excess of net book value | 11,949,000 | 11,051,000 |
| Other | 580,000 | 427,000 |
| Total unrecognized deferred income tax assets | 28,768,000 | 27,232,000 |

All deferred tax assets and liabilities are estimated to be recovered after more than 12 months.

At July 31, 2018, the Company had non capital losses in Canada of approximately $8.1 million (2017 - $7.6 million) which may be available to offset future income for income tax purposes which expire in various years from 2018 to 2038. At July 31, 2018, the Company had tax losses in Australia of approximately $8.0 million (2017 - $9.3 million) which may be carried forward indefinitely and applied against future assessable income.

## 12. Related party transactions

During the years ended July 31, 2018 and 2017, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or were significant shareholders of:

*(Expressed in Canadian Dollars)*

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Non-audit accounting fees | 49,321 | 52,715 |
| Legal fees (corporate secretary) | 690 | 9,660 |
| Management fees | 185,690 | 180,000 |
| Office and miscellaneous fees | - | 20,516 |
| Exploration and evaluation assets – consulting fees | 19,700 | 21,639 |
| | 255,401 | 284,530 |

At July 31, 2018, accounts payable and accrued liabilities included $743,889 (2017 - $477,590) owing to directors and officers of the Company and/or companies they control, of which they were significant shareholders or of which they acted as management. The amounts owing include amounts related to expenditures charged to the Company and for reimbursements of expenditures paid for on behalf of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

Key management includes the Chief Executive Officer, the Chief Financial Officer and the directors of the Company. Compensation paid or payable to key management for services during the year amounted to $216,535 (2017 - $230,651).

Perseville is a related party of Claren as it is a private company controlled by a shareholder of Claren, who is also a family member of a Director and Officer of the Company. Certain transactions with Perseville are disclosed in Note 7.

The lender (Notes 9 and 16) is a related party of Claren as it is a private company controlled by a shareholder of Claren, who is also a family member of a Director and Officer of the Company.

## 13. Financial instruments

### Management of Capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to pursue the development of its assets and to maintain a flexible capital structure that optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of amounts attributable to shareholders, net of cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

The Company is dependent on the capital markets as its primary source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's project in relation to these markets, and its ability to compete for investor support of its project.

There were no changes in the Company's approach to capital management during the year ended July 31, 2018. The Company is not subject to any capital requirements imposed by a regulator.

### Classification of Financial Instruments

The Company's financial instruments consist of cash, receivables and accounts payable. The Company designated its cash and receivables as loans and receivables, which are measured at amortized cost. The accounts payable are classified as other financial liabilities, which are measured at amortized cost.

Discussions of risks associated with financial assets and liabilities are detailed below:

*Foreign Exchange Risk*
Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. A portion of the Company's financial assets and liabilities are denominated in Australian dollars and Euros. The Company monitors this exposure, but has no hedge positions. As at July 31, 2018 and 2017, the Company had exposure to Australian dollars as follows:

| | **July 31, 2018 A$** | **July 31, 2017 A$** |
|---|---|---|
| Cash | 64,770 | 161,723 |
| Accounts payable and accrued liabilities | (10,760) | (1,320) |
| Net exposure to Australian dollars | 54,010 | 160,403 |

At July 31, 2018, a 1% change in the value to the Australian dollar as compared to the Canadian dollar would result in a change in other comprehensive loss and equity attributable to shareholders of approximately A$1,000.

The Company had exposure to Euros as follows:

| | **July 31, 2018 €** | **July 31, 2017 €** |
|---|---|---|
| Cash | - | - |
| Receivables | - | 198,540 |
| Accounts payable and accrued liabilities | - | (1,891) |
| Net exposure to Euros | - | 196,649 |

*Credit Risk*
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is primarily held with a financial institution.

*Interest Rate Risk*
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Except to the extent that the balance of cash held-in trust is earning interest, the Company has no financial instruments that could otherwise be exposed to interest rate risk.

*Liquidity Risk*
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk by maintaining sufficient cash to enable settlement of transactions on the due date. Management monitors the Company's contractual obligations and other expenses to ensure adequate liquidity is maintained.

## 14. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the year ended July 31, 2018 the following transactions were excluded from the statement of cash flows:

*(Expressed in Canadian Dollars)*

a) E&E asset expenditures of $318,925 included in accounts payable and accrued liabilities at July 31, 2018, less expenditures included in accounts payable at July 31, 2017 of $222,646 (net exclusion of $96,279).

During the year ended July 31, 2017 the following transactions were excluded from the statement of cash flows:

a) E&E asset expenditures of $222,646 included in accounts payable and accrued liabilities at July 31, 2017, less expenditures included in accounts payable at July 31, 2016 of $1,681 (net exclusion of $220,965);

b) E&E asset expenditures of $292,231 included in accounts receivable at July 31, 2017;

c) The issuance of 10,000,000 common shares at the fair value of $1,600,000 pursuant to the acquisition of E&E assets; and,

d) The issuance of 990,255 finders' warrants at the fair value of $46,049 pursuant to private placements.

## 15. Segmented information

Management has presented segmented information on a geographical basis. Geographic segment information of the Company's assets as at July 31, 2018 and 2017 is as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Canada | 48,827 | 267,243 |
| Australia | 1,313,360 | 1,397,603 |
| Romania | 611 | 513,100 |
| Total assets | 1,362,798 | 2,177,946 |

Geographic segmentation of the Company's loss during the years ended July 31, 2018 and 2017 is as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Canada | (468,643) | (754,839) |
| Australia | (33,475) | (1,241,353) |
| Romania | (624,313) | (2,498,002) |
| Loss | (1,126,431) | (4,494,194) |

Geographic segmentation of the Company's capital expenditures during the years ended July 31, 2018 and 2017 is as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Australia | (82,427) | (41,680) |
| Romania | (19,101) | (2,797,314) |
| Total capital expenditures | (101,528) | (2,838,994) |

## 16. Subsequent events

*Spin out and private placement*

On August 31, 2018, the Company closed the spin out of its wholly-owned subsidiary, Terra Nova Resources Inc. ("TNR"), which includes the working interests (51.49%) in PEL 112 and PEL 444 including a 1.47% overriding royalty interest in the PELs.

Pursuant to the November 9, 2017 Arrangement Agreement between the Company and TNR, the holders of common shares of Claren received one (1) TNR Share for every ten (10) Claren common shares held on the record date of August 13, 2018.

On September 27, 2018, the TNR shares began trading on the Canadian Securities Exchange under the symbol "TENO".

In conjunction with closing of the spin out transaction, on August 20, 2018, TNR completed a non-brokered private placement of 11,800,000 units at $0.05 per unit for gross proceeds of $590,000. Each unit consists of one TNR Share and one warrant with each warrant entitling the holder to purchase one additional TNR Share at a price of $0.05 per share at a period of two years from the date of issue.

*Loan*

On November 15, 2018, the Company entered into a loan agreement with a private company controlled by a shareholder of Claren, who is also a family member of a Director and Officer of the Company (Note 12).

Pursuant to the loan agreement, the Company received an unsecured loan of $50,000 bearing interest at 10% per annum and maturing on November 15, 2019.

*Share consolidation*

On November 16, 2018, the Board of Directors approved a consolidation of the Company's issued and outstanding common shares at a ration of ten (10) pre-consolidated shares to one (1) post-consolidation share.

All references to share and per share amounts in the financial statements reflect the pre-consolidated amounts as the share consolidation will not be effective until approval by the TSX-V.